

**ECONOMIC DEVELOPMENT CORPORATION  
FINANCE COMMITTEE MEETING  
WEDNESDAY, SEPTEMBER 5, 2018 – 9:00 A.M.**

**MEMBERS PRESENT:** Linda Forte, Chair  
Matthew Roling

**MEMBERS ABSENT:** None

**OTHERS PRESENT:** David Esshaki (George Johnson & Co.)  
Gay Hilger (DEGC/EDC)  
Denise Hundley (DEGC/EDC)  
George Johnson (George Johnson & Co.)  
Paul Kako (DEGC/EDC)  
Jennifer Kanalos (DEGC/EDC)  
Glen Long (DEGC/EDC)  
Anthony McCree (George Johnson & Co.)  
Rebecca Navin (DEGC/EDC)  
Kelly Shovan (DEGC/EDC)



Economic Development Corporation of the City of Detroit

**MINUTES OF THE ECONOMIC DEVELOPMENT CORPORATION  
FINANCE COMMITTEE MEETING  
WEDNESDAY, SEPTEMBER 5, 2018  
DETROIT ECONOMIC GROWTH CORPORATION  
500 GRISWOLD, SUITE 2200 – 9:00 A.M.**

**CALL TO ORDER**

Noting that a quorum was present, Chairperson Forte called the meeting of the Economic Development Corporation Finance Committee to order at 9:04 a.m.

**APPROVAL OF MINUTES**

Ms. Forte asked if there were any additions, deletions or corrections to the minutes of the June 12, 2018 Finance Committee meeting. Hearing none, the Committee took the following action:

On a motion by Mr. Roling, seconded by Ms. Forte, the Committee unanimously approved the minutes.

**ADMINISTRATION**

**FY 2017-2018 Draft Audit**

Mr. Long reported that the Committee was provided a copy for its review of the draft audit and audit wrap-up for the fiscal year ending June 30, 2018, as prepared by the EDC auditors, George Johnson & Company. Mr. Long turned the floor over to George Johnson. Mr. Johnson introduced the managing partner of the firm, Mr. Anthony McCree, and Mr. David Esshaki, who has been with the firm more than five years as a manager.

Mr. McCree and Mr. Esshaki reviewed the Audit Wrap-Up report provided to the Committee members and responded to questions.

Ms. Forte thanked the auditors for their thorough report.

Mr. Long added that George Johnson & Company also performed the Federal A133 audit and found no material weaknesses or findings on that as well.

Mr. Roling commended Mr. Long for another clean audit and great job by him and his team.

Subsequent to the discussion, the Committee took the following action:

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On a motion by Mr. Roling, seconded by Ms. Forte, the Finance Committee unanimously agreed to recommend approval of the audit to the Board.

### **Detroit Galley, LLC – Casino Loan Program – National Retail**

Ms. Hundley advised that in March, 2018, Pittsburgh-based Galley Group, Inc. ("Galley") announced that it planned to open a food hall in restaurant incubator in a vacant space on the ground floor of the Federal Reserve Building in the city's downtown. Galley launched its first location in 2015 at Pennsylvania's Smallman Galley. It is a 6,000sf space with 4 kitchens. In 2017 a second location was opened in Pennsylvania called the Federal Galley. It is a 7,500sf space with 4 kitchens. A third location is scheduled to open in Cleveland and Detroit Galley will be the fourth location. In the first and second quarters of 2018 the average sales ticket price is reflected at \$15.00 for both food and beverages.

Galley, a food hall development, management and advisory company, partners with community leaders and industry veterans to create a collaborative space to showcase up to four innovative food service concepts. Galley creates launch pads for the best new chef-driven restaurant concepts. The concept was driven by an assessment of the industry revealing a lack of business and management experience, significant waste, inability to control cost and the inability to manage front of house and back of house responsibilities. They provide the infrastructure for chefs to bring their concepts to market at low-risk and for low-costs.

The opportunity to identify chef-driven restaurant concepts begins with a national press release in a concept city. The release is launched in the designated concept area 6 months in advance. All inquiries are conducted thru the group web site. ([www.galleygrp.com](http://www.galleygrp.com)) Each inquiry (usually 60 to 80) is answered with a phone call, which serves as the screening process. There are usually about 40 people that achieve application status at the completion of screening. The applications are processed through an internal committee that selects 8 to 12 finalists. Those finalists compete in a demonstrative competition in the concept city. The best 4 concepts are chosen out of the competition.

The start-up operating costs of the chef-owners include: purchase of food, cookware, liability insurance, labor and legal & accounting fees. (usually \$10,000.00) Chef- owners do not pay rent but share 30% of sales revenue. Revenue is derived from food & beverage sales and event fees. Galley finances and manages the build out of the spaces, utilities, and the marketing. The restaurant operators manage their kitchen staff, menus, food inventory and catering activities. Galley oversees the restaurants with a General Manager, Marketing Manager and Bar Manager from the concept area. The managers are trained in the Pennsylvania area.

The Detroit location will be operated by Detroit Galley LLC ("Detroit Galley"), a sole member LLC owned by Galley. Galley's shareholders include Galley Group Holdings, LLC (which is wholly owned by Cornwall Capital Management LP) (61%), Tyler Benson (18%), Benjamin Mantica (18%), and Phoenix Capital Resources (3%).

Cornwall Capital Management, is a New York-based investment manager founded as a family office in 2002 by James Mai and his father, Vincent Mai. James has been the President and CIO since its inception. Vincent, former chairman and CEO of AEA

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Investors, a pioneer fund in the private equity industry founded in 1968 is chairman. The firm currently manages over \$900 million in investments.

Tyler Benson is an entrepreneur and former United States Naval Officer. He has extensive project management experience. He has a record of success in maximizing efficiency and minimizing projects costs. Benjamin Mantica is a restaurateur and former United States Naval officer with significant personnel and project management experience. As a Navy Lieutenant, he was responsible for over 100 personnel as the Division officer for a Weapons Division and Engineering Division. Tyler and Benjamin are residents of Pennsylvania. Phoenix Capital Resources is an investment bank in NY that helped develop Galley. They have an extensive network of lenders in the commercial, institutional, subordinated, and mezzanine sectors.

Detroit Galley will occupy 8,646 sf on the ground floor at 160 W. Fort Street (formerly Detroit Federal Reserve). Four rotating restaurant concepts operated by Detroit chefs will be featured in the space. Following a competitive process, a diverse group of restaurant owners have been selected: a female Cambodian American, Korean American, African American and Filipino American.

It is anticipated Detroit Galley will create up to 50 jobs, including the operations of the restaurants and the bar. Those jobs positions will include Managers, Assistant Managers, bar personnel and front & back house staff. It is anticipated that many of those jobs will be filled by City of Detroit residents. The space will seat 225 people inside and 30 to 40 seats on the patio. The restaurants will operate seven days a week, Monday through Thursday from 11am to 10 pm, Friday and Saturday from 10am to 12am, and Sunday from 10am to 3 pm. Lunch, brunch and dinner will be served. An average ticket price of \$15.00 for food & beverage tickets is projected. The sales forecast projects 35% food, 58% beverage and 7% events. The first full year of operations projects income of \$3M. Currently, a November 2018 soft opening date is planned.

MiG Construction is the general contractor and is a Detroit based company founded by Paul Jenkins, Sr. They serve clients from a broad range of markets, including dining, automotive, aviation, education and entertainment. Detroit projects include Little Caesars Arena, 1215 Griswold, DMC Medical Center and Casino loan recipient House of Pure Vin. The architect is Rossetti. They were founded and are headquartered in Detroit. They are one of the Nation's leading architectural firms. They are renowned for their work in sports, hospitality, urban planning and entertainment. Detroit projects include Ford Field and the Qline.

Detroit Galley holds many strengths although it is a first of its kind food hall and restaurant accelerator. First, entrepreneurs are afforded the opportunity to start and grow a business at low-cost and lower risk, second, 71% equity has been provided to the project, third, up to 50 new jobs are expected to be created, fourth, the project is in a highly active section of the Central Business District, which affords the project visibility and finally, the Detroit Galley can benefit from the successes and failures of the former Galley projects.

Detroit Galley has approached EDC for financial assistance under the Casino Loan program designed for National Retail Chains. Financing is being requested to assist in the buildout and purchase of fixtures, furniture and equipment. EDC will partner in financing with Invest Detroit.

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Please find below sources and uses, terms of loan and debt service analysis:

#### Sources

Equity	\$1,786,690
Invest Detroit	300,000
Economic Development Corporation	200,000
Landlord Allowance	<u>216,150</u>
Total	\$2,502,840

#### Uses

Construction Costs	\$1,436,590
Interim Construction Costs	46,250
Professional Fees	125,000
Miscellaneous Costs	75,000
Bar Build Out	<u>820,000</u>
Total	\$2,502,840

#### Proposed Terms and Conditions:

Loan Amount:	\$200,000
Interest Rate:	6%
Term:	5 years
Amortization:	9 months interest only, thereafter P&I
Security:	Pari-Passu position with Invest Detroit which includes Lien position on all Business Assets, Assignment of Liquor License, Personal Guarantees of Tyler Benson & Benjamin Mantica, Corporate Guaranty of Galley Group Inc. & Galley Group Holdings, LLC.

Additional Conditions:	Receipt, review and approval of all information requested by EDC staff. Funding of Invest Detroit Development Loan. Mirror Invest Detroit covenants regarding minimum debt service, distributions and reporting requirements.
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#### Debt Service Analysis

	<u>Year 1</u>	<u>Year 2</u>
Revenue		
Beverage Sales	\$1,820,700	\$1,857,114
Restaurant Revenue Share	1,092,420	1,114,268
Event Fees	<u>168,750</u>	<u>232,369</u>
Total Income	\$3,081,870	\$3,203,751
COGS	<u>\$616,374</u>	<u>\$640,750</u>
Gross Profit	\$2,465,496	\$2,563,001

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Total Operating Expenses	<u>\$1,650,710</u>	<u>\$1,711,562</u>
Net Operating Income	\$814,786	\$851,439
Economic Development Corporation 6%, 5 yr. amortization P&I payment (\$3,866.56)	\$46,398	\$46,398
Invest Detroit 7%, 5 yr. amortization P&I payments (\$5,940.36)	\$71,284	\$71,284
Total Debt Service	\$117,682	\$117,682
Debt Coverage Ratio	6.92	7.23

The EDC Finance Committee was asked to recommend the proposed loan to the EDC Board of Directors.

Subsequent to a discussion, the Finance Committee took the following action:

On a motion by Mr. Roling, seconded by Ms. Forte, the Finance Committee unanimously agreed to recommend approval of the loan to the Board.

#### **PUBLIC COMMENT**

#### **ADJOURNMENT**

With there being no other business to come before the Committee, Chairperson Forte adjourned the meeting at 9:36 a.m.

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